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SUBJECT: ESTONIA: SCENESETTER FOR VISIT OF FBI DIRECTOR
ROBERT MUELLER

¶1. (SBU) Summary: Welcome to Tallinn. Three and a half years after NATO and EU accession, Estonia remains a strong ally on all fronts. It is a steadfast ally in the Global War on Terror (GWOT) in both Afghanistan and Iraq, and an effective role model for democracy in the former Soviet states and beyond. Estonia is deeply committed to trans-Atlantic security institutions and pro-free market economic policy. Bilateral cooperation on law enforcement and security issues is very strong. The Office of the Legal Attach works with the GOE on key issues including terrorism, cyber crime, transnational crime, corruption, organized crime and training.

¶2. (SBU) The last year has been a banner period for U.S.-Estonian bilateral relations, including President Bush's November 2006 visit to Tallinn. Estonians are very grateful for U.S. support in the aftermath of their government's decision to relocate a Soviet war memorial known as the "Bronze Soldier" in late April. The Estonian economy continues to boom, although inflation and the current account deficit remain high while the labor market is increasingly tight. Relations with Russia remain difficult, particularly after the move of the Bronze Soldier monument. Following cyber attacks on Estonia's high-tech infrastructure in May, the GOE raised the national security implications of the issue at NATO, within the EU and bilaterally with its allies. Estonia's recent progress in meeting Visa Waiver Program requirements and U.S. Congressional action put the country on track to join by the summer of 2009. End summary.

¶3. (SBU) This has been a big year for U.S.-Estonian bilateral relations. President Bush came to Tallinn last November, the first ever visit to Estonia by a sitting U.S. President. In June, Estonian President Toomas Hendrik Ilves met with President Bush at the White House. In addition, the three Baltic Foreign Ministers recently met with Secretary Rice to mark 85 years of relations with the United States. Appreciation for U.S. non-recognition of the Soviet occupation of Estonia remains an important source of good will towards the United States. Following the Bronze Soldier riots, cyber attacks and deteriorating relations with Russia in late April and early May, the United States voiced strong public support for Estonia. One major challenge for our public diplomacy efforts, however, is to engage the next generation of Estonians to ensure that American-Estonian relations will remain strong for the long term.

LAW ENFORCEMENT

¶4. (SBU) The Regional FBI Legatt office (based in the Embassy in Tallinn), covers all operational and investigative interests of the FBI in the Republics of Estonia, Latvia and Lithuania. This includes proactive efforts such as Counter Terrorism, Counterintelligence and

Cyber Crimes. The Regional Security Officer and FBI Legal Attach are the main USG contacts with Estonian law enforcement and security services.

15. (SBU) TERRORISM. Estonia does not have an indigenous terrorist threat and none of the organizations appearing on the U.S. Department of State's list of recognized terrorist organizations are present. Estonia's major terrorism threat is border security, a particular concern for the United States and Europe when Estonia became a full member of NATO and the European Union in May 2004. Due to its shared border with Russia, Estonia is considered a potential transit risk for WMD materials. This risk has been offset by the robust DOD/DTRA/FBI WMD Counter Proliferation Initiative, which has provided considerable training and assistance to the region since 2001.

16. (SBU) CYBER CRIME. The Estonian Prosecutor General's Office identifies cyber-related crimes as one of the top three criminal threats to country. Several significant FBI computer intrusion cases had a nexus to Estonia, but the perpetrators were usually from neighboring Belarus, Ukraine or Russia. In 2006, the FBI conducted joint investigative efforts with the Estonian Police, including embedding a Cyber Special Agent in 2006.

17. (SBU) TRANSNATIONAL CRIME. Internet fraud is the primary fraud perpetrated against U.S. citizens and companies emanating from the Baltics. Numerous eBay auction schemes and other internet frauds have been initiated from the Baltic States and the proceeds transmitted via wire transfer. These transactions resulted in losses ranging from \$15,000 to as much as \$100,000 each. An even larger number of financial fraud schemes were initiated from Russian, Belarus and the Ukraine, with Baltic banks used as a transit point for funds. Estonia

has experienced fewer of these "transit" cases than Latvia or Lithuania. Money laundering through the Baltic States is common practice due to the liberal banking environment. Banks in the region routinely engage in significant foreign transfer transactions with little-known or fictitious customers. Although the situation is most egregious in Latvia, it persists in Estonia and Lithuania.

18. (SBU) PUBLIC CORRUPTION & ORGANIZED CRIME. All three Baltic States have identified corruption as a high priority for their governments and law enforcement. The FBI Task Force in Budapest has identified numerous organized crime (OC) connections to the Baltic region, including in Estonia. Several small OC groups (15 - 30 persons each) currently operate in Estonia. Estonian Police believe that the links with Russian OC groups have weakened in recent years, although Russians continue to maintain some level of coordination with the leaders of Estonian OC groups. Although Estonian authorities do not believe that organized criminal elements have been capable of influencing the government process, the Prosecutor General has identified public corruption as the top prosecutorial and political priority.

19. (SBU) TRAINING. The Legatt Office provides training to Estonian law enforcement to help increase their efficiency and effectiveness. In 2007, the FBI hosted or provided instructors in courses on organized crime, evidence collection, cyber investigations, cyber evidence collection, money laundering, public corruption, human trafficking and intellectual property rights.

GLOBAL WAR ON TERROR

110. (U) Estonia is a strong supporter of the U.S. position in the GWOT. Estonian troops participate in NATO operations (in Afghanistan, Kosovo and Iraq), EU operations (the EU's Nordic Battle Group), Operation Enduring Freedom in Iraq and other missions (including the UN mission in Lebanon). A company of Estonian soldiers (130) is deployed to the southern province of Helmand (the epicenter of

Afghanistan's opium production and a stronghold for the Taliban). In Iraq, Estonian soldiers are embedded with U.S. troops in some of the toughest counter-insurgency operations outside of Baghdad. On June 23, 2 Estonian soldiers were killed in Afghanistan. In 2004, 2 others were killed in Iraq. Overall, 8.2% of Estonia's military is currently deployed overseas. The GOE is on track to meet its NATO commitment of devoting 2% of its GDP to defense spending (currently at 1.83%). Estonia is a vocal supporter of NATO enlargement.

REGIONAL DEMOCRACY PROMOTION

¶11. (U) Estonia plays an active role in encouraging democratic reforms and economic development in several former Soviet states. Estonia's experience of transforming itself from a Soviet-occupied country into a healthy democracy with a booming economy has given it immense credibility in promoting democracy and transformational diplomacy. The GOE has provided training in law enforcement, judicial reform, freedom of the press, democracy building, economic and market reforms and IT to civil servants from the Balkans, Georgia, Moldova and the Ukraine. Georgia is of particular importance for the GOE -- Estonian President Ilves, Prime Minister Ansip and Foreign Minister Urmas Paet have all visited Tbilisi to strengthen ties between the two countries. Former Prime Minister Mart Laar serves as a personal advisor to Georgian President Mikheil Saakashvili on political and economic reform.

ECONOMIC PERFORMANCE

¶12. (U) Estonia's economy is probably the most dynamic of the "Baltic Tigers," and has been growing at 7-11% per year for the past seven years. The state budget has been in surplus since 2001, (currently 3.3% of GDP) and unemployment is currently 5.3% and falling. The biggest challenges facing the economy are: a labor shortage, a growing current account deficit and inflation. The national currency, the Kroon, is pegged to the Euro. Estonia would like to join the Euro zone by 2011. (Note: Estonia meets all Euro criteria except for inflation. End Note.)

¶13. (SBU) Since the early 1990s, consecutive Estonian governments have backed a business- and investor-friendly economic policy featuring a flat 22% tax on personal income and no tax on reinvested profits. Leading sectors include computer, software and cellular technologies, tourism and manufacturing. The United States is the eighth largest foreign direct investor, but U.S. direct investment

accounts for less than 2.5% of total FDI, well behind the Swedes and Finns, who together account for more than 80% of the total. Estonia is best known for its highly developed IT sector and widespread use of technology in government and daily life. Internet usage in Estonia is over 60%, and online banking is upwards of 80% - both the highest in Europe. Cabinet ministers work on the basis of e-government and Estonia was the first country in the world to offer e-voting in a nationwide election.

¶14. (U) Large domestic oil shale reserves have allowed Estonia to remain relatively independent of Russian energy supplies, although Estonia imports natural gas from Russia. The GOE will need to invest in expensive upgrades to its oil shale plants to meet EU environmental standards by ¶2012. A proposed Baltic-Polish nuclear reactor in Lithuania, as well as possible participation in a new Finnish reactor, presents other possibilities for expanding electricity supply. The proposed NordStream gas pipeline from Russia to Germany may pass very close to Estonia's territorial waters. GOE officials frequently reiterate the need for a common EU approach to energy security.

RUSSIA

¶15. (SBU) RUSSIAN RELATIONS. Estonia's relationship with

Russia is difficult and complicated following nearly 50 years of Soviet occupation. While the countries share trade and investment ties, they have not been able to conclude a border treaty. Depending on the political climate, trucks crossing from Estonia into Russia may encounter delays of up to several days. Estonia's decision to relocate the Bronze Soldier prompted riots by ethnic Russians in Tallinn. Following the riots, Russia put heavy economic and diplomatic pressure on Estonia - including refusing to disperse a mob outside the Estonian Embassy in Moscow for several days, limiting rail and truck traffic across the border and encouraging a boycott of Estonian goods. Since April, rail traffic (oil, coal, wood and other materials) has been down by 30 to 50% - significantly reducing Estonia's transit revenues and complicating supply lines for Estonian companies.

¶16. (SBU) Ethnic Russians make up approximately 25 percent of the population of Estonia. Russia has frequently complained about GOE treatment of its Russian speaking minority. However, until the Bronze Soldier riots, Estonia's efforts to integrate its minority population were viewed as a model for the region. While Estonia can still point to significant accomplishments of its integration strategy, the riots revealed deep fissures remain between ethnic Russians and Estonians living in Estonia. The GOE, which has traditionally engaged in language-based integration programs, is working on a new strategy that will continue with language programs, but also focus on society building and cultural understanding among Estonians of all ethnicities.

CYBER WARFARE

¶17. (SBU) Immediately following the Bronze Soldier riots, Estonian websites, routers and servers came under a wave of coordinated cyber attacks. The attacks targeted GOE websites (e.g., of the President, Prime Minister, MFA and MOJ) as well as commercial and media sites (e.g., online banking and news portals). The attacks were not highly technical and mainly employed botnets (robot networks of computers and/or servers) to shut down targets through "denial of service" attacks. Russian-language internet chat-forums were used to discuss the times, targets and methodology of these attacks. The GOE cannot prove a direct link between the Russian government and the attacks, but Estonian officials believe there is significant circumstantial evidence implicating Russia. The GOE has raised the cyber attacks at NATO, within the EU and bilaterally with its allies -- with a focus on the national security implications. Estonian President Ilves discussed the cyber attacks with President Bush and other U.S. officials during his visit to Washington at the end of June.

VISA WAIVER

¶18. (SBU) Securing visa-free travel to the United States for Estonian citizens remains a priority for both the GOE and the Estonian public. Senior GOE officials and the media regularly raise the issue of membership in the U.S. Visa Waiver Program (VWP) at all levels with the USG. Estonia's recent progress toward meeting the VWP criteria and U.S. Congressional action have put the country on track (perhaps) to join the VWP by the summer of 2009.

PHILLIPS